

CS 5-1

Common Pitfalls of Fraud Investigation

PRICEWATERHOUSECOOPERS 

Increase Respect for What You Do

Develop a World Class Investigations Group

“The detection of fraud is the most important portion of the Auditor’s duties, and there will be no disputing the contention that the Auditor who is able to detect fraud is a better man than the auditor who cannot. Auditors should, therefore, assiduously cultivate this branch of their function.”

Paradigm to Break

Auditors

Can Detect More Indicia of

Fraud

Without Much Retooling

Paradigm to Adopt

**Fraud Investigations are a
Specialty...**

**Requiring the Talents of...
Highly Trained and
Experienced Professionals**

Resulting Action

Rely on a **Separate Team
of Fraud Investigators...**

To be **Deployed Upon
Learning of Suspicions of
Fraud...**

Regardless of **Where They
Are Discovered**

Your Challenges

- ❑ Staff Turnover/Rotation
- ❑ Lack of appreciation for Specialty
- ❑ Institutional Relationships @ Risk
- ❑ Cost Justification

Why Go Through The Trouble...

If You are Serious About Detecting Fraud

It's the Only Sensible Approach

Your Opportunity Awaits ...

**So what can you do to stem the
tide of this fraudulent
epidemic and be more effective
at the task at hand?**



Characteristics of the White Collar Criminal

Profile:

- Older (30 + years)
- 55% male, 45% female
- An appearance of a stable family situation
- Above-average (post-graduate) education
- Less likely to have criminal record
- Good psychological health
- Position of trust
- Detailed knowledge of accounting systems and their weaknesses
- Prior accounting experience

“Do”

Exercise Professional Skepticism

SAS 99 - Importance of Exercising Professional Skepticism

“Professional skepticism is an attitude that includes a questioning mind and a critical assessment of audit evidence. The auditor should conduct the engagement with a mindset that recognizes the possibility that a material misstatement due to fraud could be present, regardless of any past experience with the entity and regardless of the auditor’s belief about management’s honesty and integrity.”

SAS 99, Paragraph 13

Tom Golden Truism # 1

“You can be as skeptical as you want, but if you don’t know what it’s like, first hand, to be on the other side of deceit, then you have absolutely no chance of finding fraudsters or identifying their footprints.”

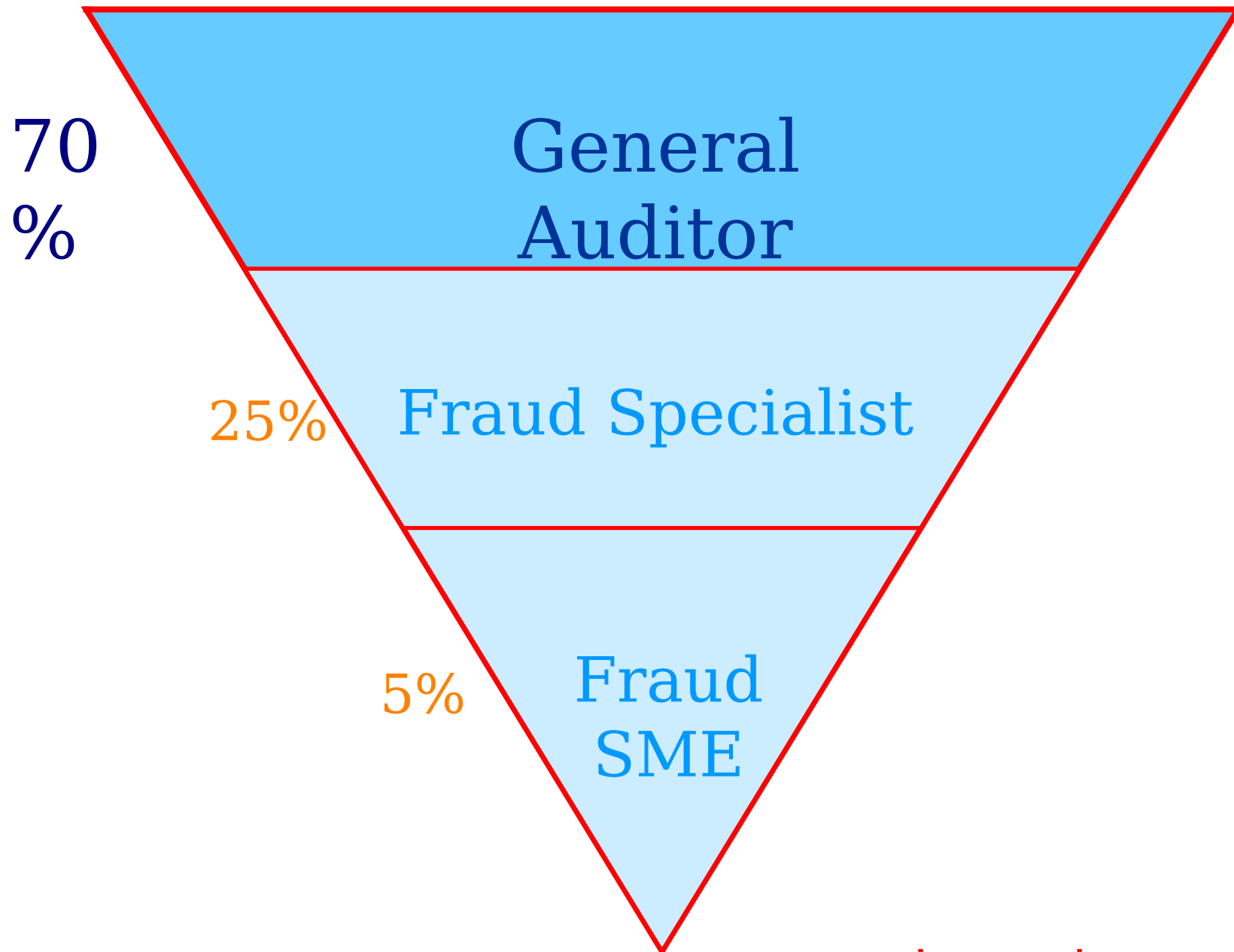
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“Do”

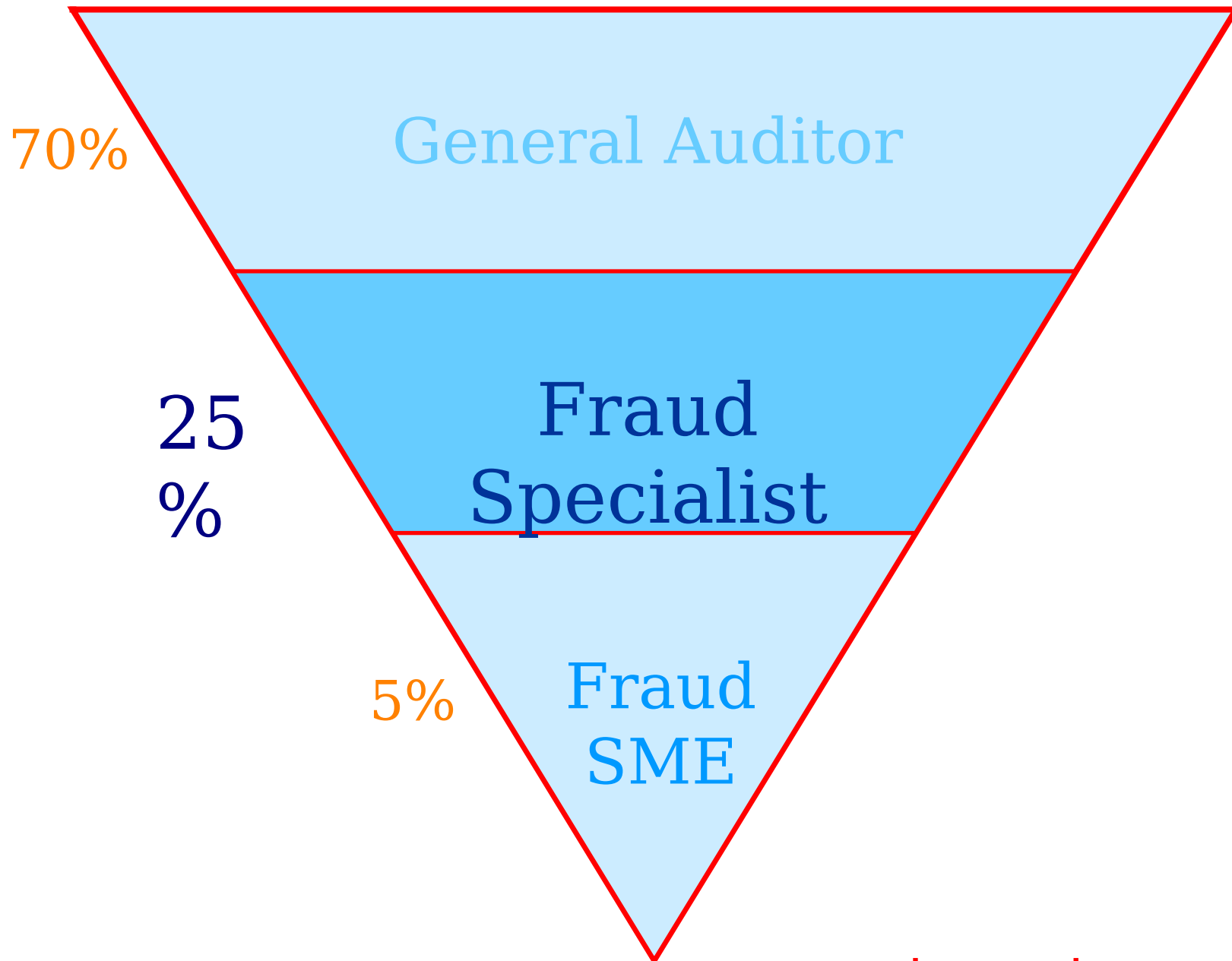
Set-up

**Forensic Accounting
SWAT Teams**

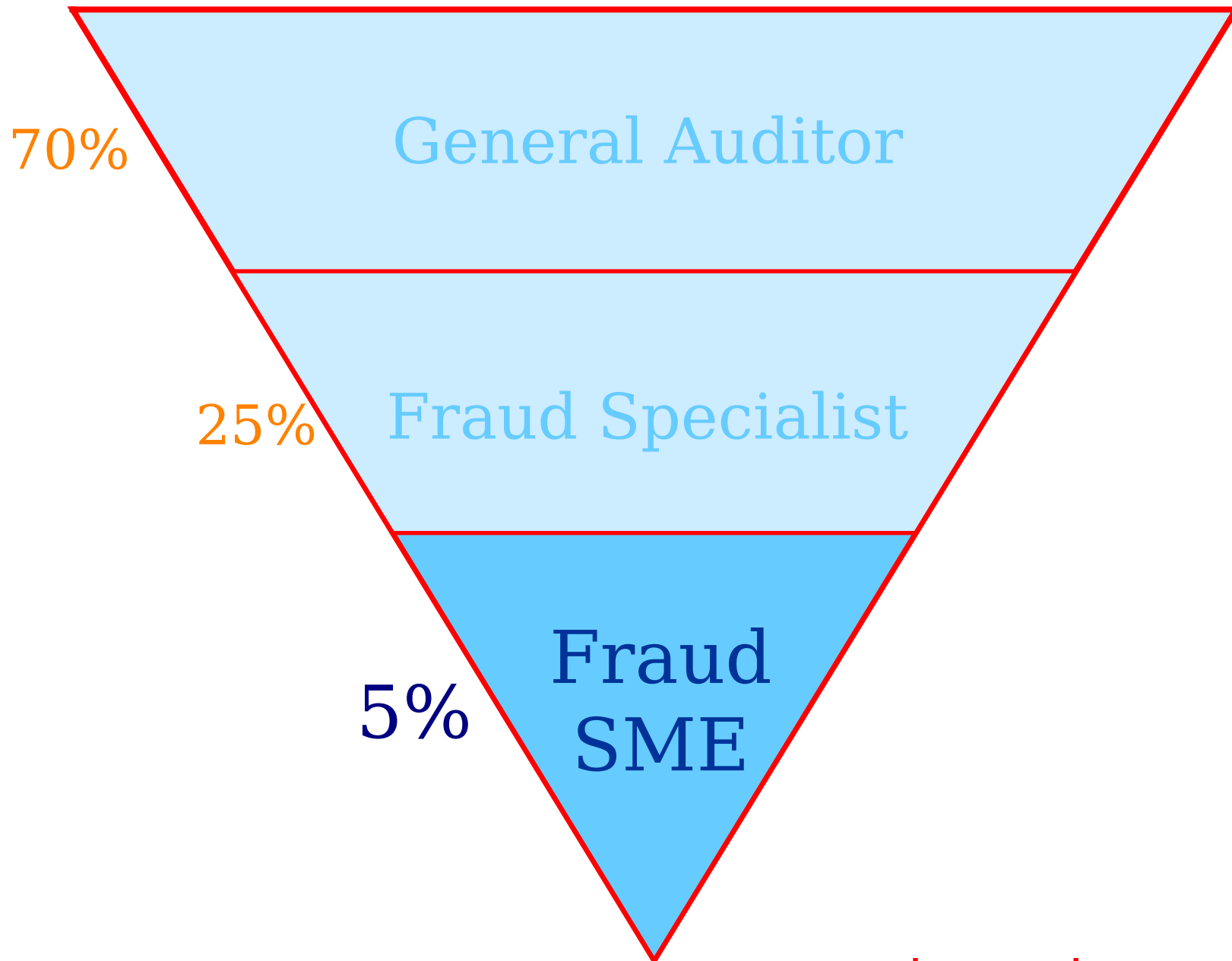
Fraud Expertise Deployment



Fraud Expertise Deployment



Fraud Expertise Deployment



“Do”

**Loss Prevention
should partner
with Internal Audit**

“Do”

**Think
Like a
Thief**

“Do”

Trust but Verify

“Do”

**Get your staff the
right Training**

“Do”

**Perform Routine
Fraud Audits
that include
Data Mining**

Tom Golden Truism

2

“The very best fraud prevention mechanism is to put forth the *perception* that... if you do something wrong, you will be caught... and the punishment will be swift and severe.”

“Do”

**Get off of those operational
audits**

and

**get back to your
roots**

Return to the Days of the Pharaohs

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“Don’ts”

Don’t approach like an audit...

**Investigation is more
intuitive
than process driven**

“Don’ts”

- **Don’t confront**

“Don’ts”

- Don’t confront

- **Don’t fire**

“Don’ts”

- Don’t confront
- Don’t fire
- **Don’t assume**

“Don’ts”

- Don’t confront
- Don’t fire
- Don’t assume
- **Don’t ignore the small stuff**

“Don’ts”

- Don’t confront
- Don’t fire
- Don’t assume
- Don’t ignore the small stuff
- **Don’t Rely on Others to Detect and Deter Fraud**

Tom Golden Truism # 3

“People need to know their areas of responsibility,
their limits of authority,
and people need to be *monitored*.”

Question s?



■ The "Interview"

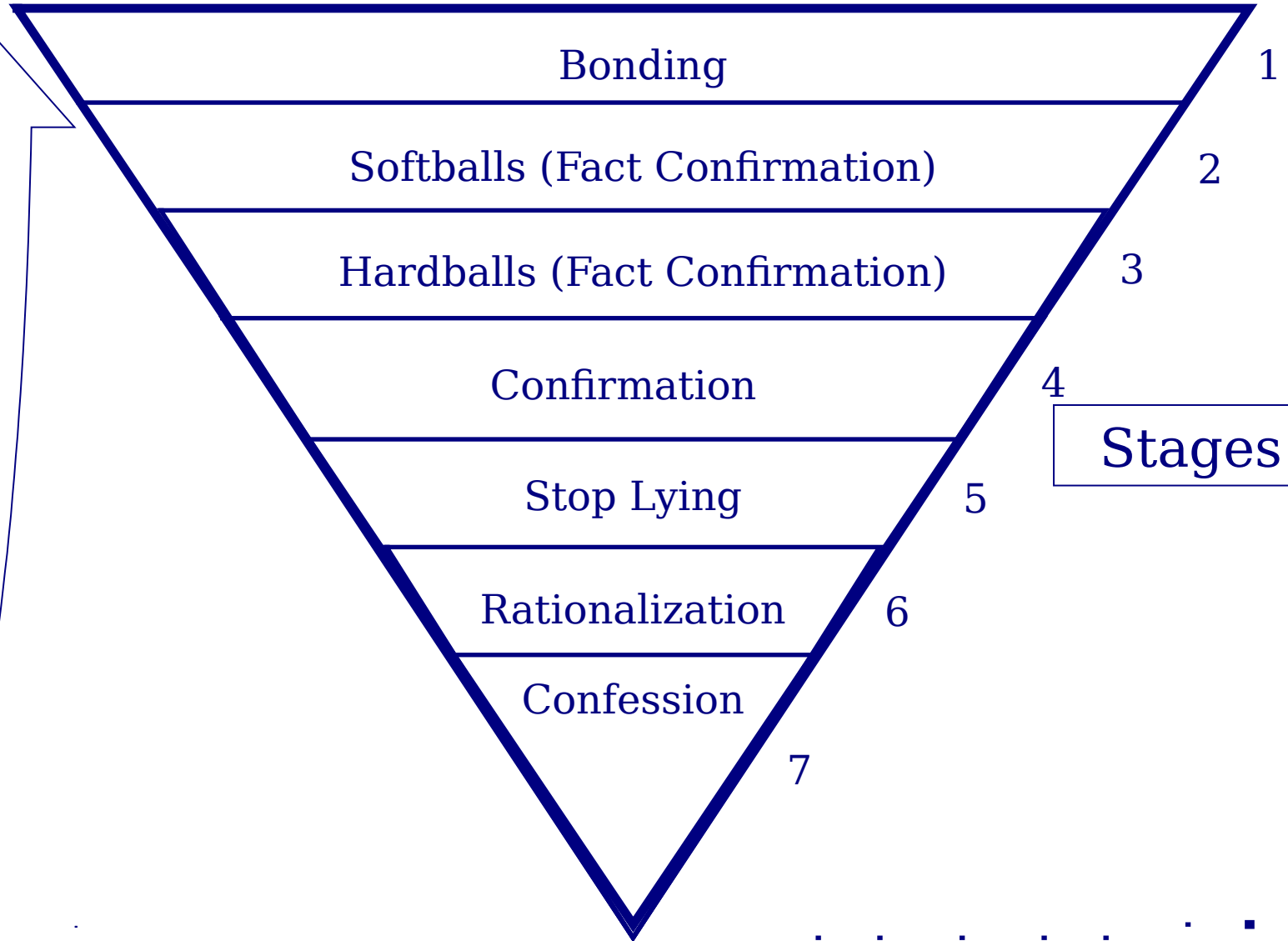
**A CONVERSATION WITH A
PURPOSE**

Admission-Seeking Interview Process

Goals

Lower Desire to
Continue Lying

Increase Desire to
Tell Truth



Seven Steps to Winning the Confession